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Moderating effects of Dynamic business environment on the relationship of Entrepreneurial Orientation and Financial Performance of SMEs

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Abstract

Textile sector having high importance in Pakistani economy, Due to its high portion in total exports of Pakistan which is decreasing in in last five years (Economic survey of Pakistan). Main objective of the study was to test moderating effects of dynamic business environment on the relationship of entrepreneurial orientation and financial performance of textile SMEs of Pakistan. Data was collected through self-administrated questioner from textile SMEs of Pakistan, cross-sectional approach was used. The study applied quantitative analysis techniques to obtain statistical results. Through PLS-SEM applying as statistical results of relationships study found that entrepreneurial orientation has positive and significant effects on financial performance of SMEs, also moderating hypothesis was positively accepted. This study confirms the proposed moderation of dynamic business environment on the relationship of entrepreneurial orientation and financial performance of SME.

Keywords: Entrepreneurial Orientation, Dynamic business environment, Financial performance of SMEs

Introduction

The Entrepreneurial Orientation (EO) reflects a deliberate organizational position regarding the progressions, practices, and activities that increase a firm's value when engaging in business activities (Lumpkin & Dess, 1996). Reportedly, SMEs play an important role in providing job opportunities and increasing the country's total economic savings (Kongolo, 2010). Moreover, these SMEs have a favourable impact on regional development and serve as a training ground for industrial workers to enhance their skills. SMEs play an essential complementary role in driving the economic growth of every country (Beck & Demirguc-Kunt, 2006). Over the past few decades, SMEs have accounted for the majority of businesses in Pakistan (Awan, Khattak, & Kraslawski, 2019). Researches also focused to identify the specifies that relationship of EO - financial performance should be checked on priority (Rauch, Wiklund, Lumpkin, & Frese, 2009).

Essentially, exports play a necessary function in influencing the country's financial system in phrases of the financial process, employment rate, and additionally the stability of payments (Ahmad, Afzal, & Khan, 2017; Fatemah & Qayyum, 2018). For instance, in spite of the importance of the manufacturing area in riding the financial improvement of Pakistan, its exports have remained low for the earlier few years. The contribution in the economy of the manufacturing sector is diminished from 5.6% to 5.0% in 2018, which has affected the typical overall performance of its export-oriented sub-sectors, such as textile, sports activities things to do goods, surgical, apparel, cutlery, and other related sectors. (LCCI, 2018).

In the report on the textile sector in Pakistan, Jazib Ahmed (2016), highlighted its economic contribution to the country, where the textile sector contributed over 40% of the industrial labour force and GDP of 8.5%. Apart from accounting for 40% of banking credit, the textile sector held approximately 60% of the total export share in Pakistan. The above figures reflect the significance and viable role of the textile sector in expanding the country's economic spectrum (Jazib Ahmed, 2016). However, according to the Ministry of Finance (2019), the Economic Survey of Pakistan revealed a decrease in the exports of textile products from 2017 to 2019 by 26.19%.

Wiklund and Shepherd (2003) have acknowledged the relevance of entrepreneurial orientation (EO) on the performance of SMEs. EO is essential for the survival and performance of SMEs. Two-thirds of the newly established SMEs were revealed to survive up to two years, while 44% of SMEs were found to survive up to four years, and only about 4% of them overgrew (Storey, 2016). The significant failure rates among the SMEs were attributed to many reasons, including the lack of entrepreneurial practices, mismanagement or limited understanding of risk, marketing problems (Paul, Parthasarathy, & Gupta, 2017), lack of planning (Durst & Aggestam, 2016), limited understanding of the environmental and conditions



(Ates, Garengo, Cocca, & Bititci, 2013). With the increase of new SMEs, nurturing these SMEs into long-term businesses requires a broad set of skills and resources (Tetteh & Burn, 2001).

In another context, entrepreneurship through SMEs serves as one of the key elements that drive the economic development and growth for most countries (Hodi et al., 2010). Entrepreneurs stimulate economic activities in pursuit of their vision. They find unique opportunities that drive their pursuit towards realising their vision. These entrepreneurs can either form new enterprises or contribute significant value to the existing enterprises through innovation. In most cases, they may apply these different operation means interchangeably as owners of SMEs, they should focus on starting new businesses with their EO activities involves pro-active, risk-taking, and innovative decisions (Leitch & Volery, 2017). Today, SMEs are seen more than ever as a vital source of entrepreneurship in terms of employment, social, and stability as well as innovation and competition (Ferreira, L., & Thurik, 2015).

As a result, SMEs in the manufacturing region has won developing interest amongst academicians and practitioners. Besides that, EO and its impact on the overall performance of SMEs have additionally obtained huge interest when it comes to the context of exports (Chen, Sousa, & He, 2016). Due to the changes in the BE, given the dynamic nature of exports market, the significant influence of EO on the performance of SMEs has become increasingly important in order to establish sustainable competitive advantage (Thanos, Dimitratos, & Sapouna, 2017). EO exhibits the capacity to reform the production process and promotes the adoption of innovative practices and the establishment of new outlets for products and services (Zehir, Can, & Karaboga, 2015).

Nevertheless, the success of the EO implementation relies upon on the attitude, commitment, experience, and understanding of the proprietors or managers of SMEs (Wiklund & Shepherd, 2003). Numerous past studies proved the significance of EO with performance (Hernandez-Perlines, 2018; Sok, Snell, Lee, & Sok, 2017; Thanos et al., 2017). However, Frishammar and Åke Hörte (2007); Frishammar and Andersson (2009) revealed its insignificant have an effect on the overall performance of SMEs. Although, from realistic viewpoint the terrible overall performance trouble of SMEs via EO due to the lack of other techniques and practices (Al-Dhaafri, Al-Swidi, & Yusoff, 2016; Sahoo & Yadav, 2017).

Studies have revealed different aspects of the performance of SMEs. Alegre and Chiva (2013); Hean Tat, Nguyen, and Hwei Ping (2007) suggested conducting more research on EO. According to (Abebe, 2014; Wang, Thornhill, & Julio, 2017), SMEs were also proposed for further investigation given the lack of EO practices (Wang et al., 2017). EO is viewed as a multidimensional composite construct that represents the capability of SMEs to exhibit pro-active, risk-taking, and innovative practices (Chow, 2006; Covin & Slevin, 1989a; Hughes & Morgan, 2007). Most studies have identified EO as an essential factor that influences the performance of SMEs (Amin, Thurasamy, Aldakhil, & Kaswuri, 2016; Mohammad Ibrahim & Mahmood Rosli, 2016). On the contrary, some past researches examine the insignificant relation among entrepreneurial orientation and performance of SMEs (Alegre & Chiva, 2013; Lechner & Gudmundsson, 2014). The inconclusive findings on the influence of EO on the performance of SMEs as well as the proposed recommendations from past studies to further explore the significance of EO demonstrated the imperative need to assess EO as an important construct.

Similarly, Sheikh, Shahzad, and Ishaq (2017) also highlighted the importance of BE in evaluating the performance of SMEs. Studies have discussed the positive relationship between BE and the performance of SMEs (Islam, Khan, Obaidullah, & Alam, 2011; Otache & Mahmood, 2015; Shigang, 2010; Zulkifli-Muhammad, Char, bin Yasoa, & Hassan, 2009). Hypothetically, BE seems to be a practicable moderating variable that can have an effect on the relationship between EO and the overall performance of SMEs (Awang et al., 2009; Fairoz, Hirobumi, & Tanaka, 2010). After all, previous research particularly encouraged to similarly discover the function of BE in the relationship between EO and overall performance of SMEs (Andy, Lumpkin, Praveen Parboteeah, & Stambaugh Jeffrey, 2019). Whereas the moderating impact of BE in this exclusive relationship EO-FP of SMEs was also suggested (Zafar, Hafeez, & Shariff, 2016).

According to the RBV theory, SMEs have the capability to achieve sustainability in their return by carefully utilising the available resources (Barney, 1991; MM Caldeira & Ward, 2001; Dwivedi, Papazafeiropoulou, & Scupola, 2009; Galbreath, 2005). Dwivedi et al. (2009) highlighted the importance of the RBV theory, as it magnifies the resources that SMEs possess, including both tangible and intangible resources. However, the RBV theory assumes that SMEs fully utilise their



resources (Dwivedi et al., 2009; Rivard, Raymond, & Verreault, 2006). Hence, past studies that employed the RBV theory to support the EO contribution focused on the impact of EO over the performance of SMEs. Studies have proved the usefulness of RBV theory. For instance, Mário Caldeira and Ward (2003) used the RBV theory to interpret successful entrepreneurial plans of SMEs.

Theoretical background and hypothesis

Miller and Friesen (1983) introduced EO in his work, this research also explains EO as a deliberate attitude that largely spread over to entrance into new venture. Entrepreneurial companies participate to be innovative, proactive, and risk-taking behaviours (Covin & Slevin, 1989b; Miller, 1983). Hence, it is of principal importance for SMEs to survive and perform well (Polat & Mutlu, 2012). After all, studies have identified risk-taking, proactiveness, and innovativeness as key dimensions of EO in relation to the financial performance of SMEs (Al-Swidi & Mahmood, 2012; Sadiku-Dushi, Dana, & Ramadani, 2019). Similarly, EO can be viewed as a specific route by which SMEs can identify with new circumstances and exercises that prompt more business opportunities (Hulberta, Gilmoreb, & Carson, 2013). Additionally, EO is one of the critical assets that affect the performance of SMEs. EO has the processes, activities and aims of the entrepreneurs to create prospects and promote their productions. These procedures, operations and plans include some risky behaviours, the aptitude to be proactive and to introduce new innovations to compete with competitors (Calabrò et al., 2018). Clearly, these Earth observation developments and actions are suitable for branding and unique important business developments (Fernández-Serrano & Romero, 2013).

In inference, EO refers to the capacity of SMEs to perform hazardous aerobics, to be more practical in their actions and decisions and to innovate to have new chances (Raby & Gregson, 2018). With this, EO can be defined as the activity of SMEs when they explore new market opportunities. In support of the same argument, Lechner and Gudmundsson (2014), defined EO as the procedure, behaviour, and edifice for the firms. Meanwhile, (Wiklund & Shepherd, 2005) described EO as the strategic capability of SMEs to seize unique components of decision-making, methods, and enterprise practices. SMEs with sound EO is in a position to become aware of and make use of new market opportunities (Masa'deh, Al-Henzab, Tarhini, & Obeidat, 2018).

Trumpp, Endrikat, Zopf, and Guenther (2015) specifically, conceptualised BE as a one-

dimensional construct. In another research BE regarded as the external environment of SMEs that include their operating environments, such as the government, competitors, customers, suppliers, and sociocultural aspects (Gupta, Guha, & Subramanian, 2013).

H1: Impact of entrepreneurial orientation of the financial performance of SMEs.

BE refers to the factors that affect business activities based on its operation settings in the political, economic, sociocultural, technological, and environmental or ecological aspects, while the legal environmental factors refer to a more general definition of BE (Sloman, 2007). Task environment is most widely used in literature, where the environment is classified based on its influence on the SMEs (Coeurderoy & Murray, 2014). It forms a set of factors that SMEs must consider in decision-making. These factors are physical and non-physical attributes that affect SMEs, and the behaviour of individuals within it divided the environmental factors into external environmental factors (Prajogo & McDermott, 2014). The external environmental factors consist of all physical and non-physical factors beyond the operation of SMEs, such as customers, suppliers, competitors, and socio-political and technological factors that affect individual behaviour and the decision-making of SMEs. Based on this definition, physical factors refer to all tangible elements while non-physical factors refer to all intangible factors, such as social factors. In addition, government policies (Wahga & Blundel, 2015), socioeconomic conditions, entrepreneurial and business skills, financial and non-financial business support were also cited as factors related to entrepreneurs.

H2: Moderating effects of dynamic business environment on the relationship of entrepreneurial orientation and financial performance of SMEs.

Methodology

Population, Sample and data collection

According to Sekaran and Bougie (2009), population refers to the entire group of people, measures, or things of interest that the study attempts to explore. The owners or managers of 3,430 registered SMEs under Lahore Chamber of Commerce and Industries in Pakistan's textile sector represented the target population of this study (LCCI, 2018). The list of 3,430 SMEs was accessed from Lahore Chamber of Commerce and Industries. A sample is said to represent the target population and a probability sampling is the most essential method to narrowly define the population, where all elements of the population have an equal



and independent chance to be selected as respondents (Marczyk, DeMatteo, & Festinger, 2005; Rubin & Babbie, 2007; Sekaran & Bougie, 2009).

In order to obtain more information on a specific sample, simple random sampling is typically considered as one of the most efficient sampling strategies, particularly when the researcher has the list of the entire population. Following the initial data screening, a sample is typically selected for data collection. Simple random sampling is the best option when the researcher knows the number and name of respondents or population under study (Babbie, 2011; Kothari, 2004; Saunders, 2011; Sekaran & Bougie, 2009).

Referring to Morgan's table (Krejcie & Morgan, 1970), the required sample size from a population of 3,430 registered SMEs under Lahore Chamber of Commerce and Industries (LCCI) in Pakistan's textile sector (LCCI, 2018) was 346 SMEs. Shehu and Mahmood (2014) further suggested that the sample size should be increased to reduce error and compensate for the non-response issue. Hence, the

Table 2

Profile of Respondents

Demographic Information		Frequency	Percentage (%)
Number of employees	1-49	147	37.4
	50-99	177	45.0
	100-149	11	2.8
	150-199	58	14.8
	Total	393	100.0
Type of firm	Manufacturing	92	23.4
	Services	115	29.2
	R&D	20	5.1
	Wholesaler	126	32.1
	Retailer	40	10.2
	Total	393	100.0
Time in firm	Less than 3	326	83.0
	3-7	6	1.5
	7-15	61	15.5
	Total	393	100.0
Job position	Owner	268	68.2
	Manager	125	31.8
	Total	393	100.0

Measures

Study adopted measures from previous researches. Total no of questions asked were 25 and five questions for demographics, nine for EO (Covin & Slevin, 1989b), five for financial performance (Harif, Azhar, Hoe, & Ahmad, 2012) and six for BE as moderator (Prajogo, 2016).

required sample size for this study was increased by approximately 50%, resulting in the distribution of questionnaire surveys among 520 randomly selected SMEs.

This study obtained data from the owners or managers of SMEs in Pakistan's textile sector. In this study, the questionnaire sets were personally administered. Personal visits to the respondents are said to increase the response rate (Sekaran, 2010). The study distributed 520 questionnaire sets and successfully obtained 403 questionnaire sets, resulting in a response rate of 77.5%. The data from all 403 questionnaire sets were used for the subsequent analysis using IBM SPSS (version 24). As shown in Table 4.1, five outlier cases and five wrongly filled responses were found. Hence, 10 questionnaire sets were excluded from the ensuing analysis, resulting in a valid response rate of 75.5% with 393 questioners. The recorded response rate was deemed comparable to other past studies (Chan, Ngai, & Moon, 2017; Mohammed & Obeleagu-Nzelibe, 2014). Table 2 presents all demographics of the respondents of study.

**Table 3***Description of Instrument*

Description	No. of Items	References
Section One: Demographic information of respondents	5	-
Section Two: Financial Performance of SMEs	5	(Harif et al., 2012)
Section Three: Entrepreneurial orientation	9	(Covin & Slevin, 1989b)
Section Six: Dynamic business environment	6	(Prajogo, 2016)
Total = 25		

Reliability and validity tests

For this study, the pre-test involved three experts from the University of Central Punjab, National University of Science & Technology Islamabad, and Foundation University in Pakistan. These appointed experts were required to provide their expert opinions on the appropriateness and representativeness of the developed instrument (Sekaran & Bougie, 2009). They were also requested to examine any redundant, over-represented, or under-represented items. Apart from that, opinions from the practitioners in the textile sector on the questioners were acquired.

A pilot test was also conducted from concerned respondents of the same sector from where researcher have collected data. The pilot test was conducted to calculate certain tests, the reliability, content validity, readability, wordings, formatting, sequencing, and readability of the questions. It was

also used to determine the time required for the respondents to complete the questionnaire survey in order to set up the correctness and suitability of the research design and arrangement. The opinions and remarks from the professionals had been received to discover the appropriateness of the language and shape of the adopted instrument. The testing of the theoretical constructs, reliability of an instrument is essential aspects that determine the reliability of the measurement and the reproducibility of the obtained results. Cronbach's alpha as a reliability which reflects the internal consistency of the measures (Saraph, Benson, & Schroeder, 1989), was applied in the present study for each measure. Cronbach's alpha coefficient is a standard method to estimate the internal consistency of items. The obtained data were analysed using IBM SPSS (version 24). In particular, the reliability of each construct was separately tested.

Table 4*Reliability Analysis of items and constructs*

Items	BE	Alpha	CR	AVE
BE1	0.586			
BE2	0.651			
BE5	0.817			
BE6	0.777	0.697	0.804	0.510
EOINN1	0.849			
EOINN2	0.951			
EOINN3	0.935			
EOPRO1	0.584			
EOPRO2	0.78			
EOPRO3	0.786			
EORT1	0.833			
EORT2	0.848			
EORT3	0.697	0.763	0.823	0.789
SMEFP1	0.791			



Items	BE	Alpha	CR	AVE
SMEFP2	0.82			
SMEFP3	0.849			
SMEFP4	0.879			
SMEFP5	0.819	0.889	0.918	0.693

Descriptive Analysis

According to D'Agostino (2017), values of skewness and kurtosis should less than ± 2.0 ; skewness of more than 3 and kurtosis of more than 10 indicate potential problem and values of more than 20 may lead to more critical issues during the analysis (Kline, 2015). Hence, based on this recommendation, both skewness and kurtosis of less than 2 were considered for the obtained data in this study.

Table 5

Results of Descriptive Analysis

Variables	N	Mean	Std. Deviation	Skewness	Kurtosis
FP	393	3.7730	.75389	-0.327	-0.392
EO	393	3.6503	.64918	0.220	-0.442
BE	393	3.8568	.61075	-0.414	0.110

Analysis and Reporting

EO in this study comprised of three interrelated components, specifically risk-taking, pro-activeness, and innovativeness. Studies have postulated that SMEs with these three components tend to make bold business decisions. However, the present study found evidence that the relationship between EO and financial performance of SMEs is statistically significant. Arshad and Rasli (2018) Avlonitis and Salavou (2007); Ayuso and Navarrete-Báez (2018) also reported similar results on the relationship between EO and financial performance. In this case, the present study obtains adequate evidence to support H_1 ; thus, H_1 is accepted.

Second, this study examined the moderating role of the dynamic business environment on the relationship of EO and the FP of SMEs. The relationship considers the internal capacity of EO and SMEs as an important factor in facilitating the relationship of EO with the financial performance of SMEs in Pakistan (Anderson & Eshima, 2013; Wiklund & Shepherd, 2003). However, the dynamic business environment is tested as a

moderator in EO's relationships with financial performance of SMEs. Therefore, the present study examines and presented that the EO-SME's relationship is positively significant and the relationship improved by the moderation of dynamic business environment. H_2 centered on the moderating function of BE in the relationship between EO and monetary overall performance of SMEs. Based on the bought results. Moderating outcomes of BE on the relationship between EO and monetary overall performance of SMEs used to be discovered negatively significant, which used to be in line with the suggested outcomes of previous research, such as the study by (Muthuvelayutham & Jeyakodeeswari, 2014) in the context of India. A non-supportive BE can be damaging due to the innovativeness of SMEs in Pakistan. Unsurprisingly, the BE in Pakistan is acknowledged as unfavourable (Wu, 2009). It is a challenge for SMEs to buy critical resources and obtain high-risk business opportunities in an unsupportive BE. Nevertheless, BE negatively strengthens the relationship of EO with the financial performance of SMEs

Table 5

Hypothesis Testing

	Hypothesis	Original Sample (O)	T Statistics	P Values	Status
H_1	EO-FP*	0.304	6.317	0.000	Significant



H2	EO-BE-FP*	0.071	1.973	0.049	Significant
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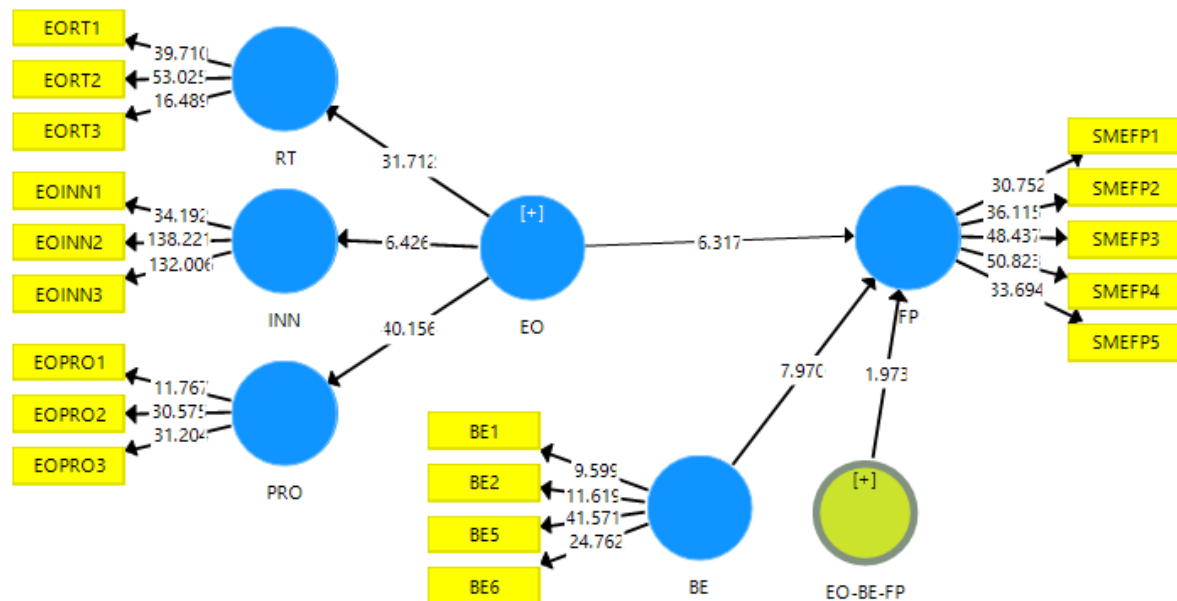


Figure 1 Bootstrapping of PLS-SEM model

Conclusion

This find out about aimed to analysed moderating results of dynamic business environment on the relationship of entrepreneurial orientation and financial performance of SMEs in Pakistan evidence collected from textile sector of Pakistan. As we see the statistical outcomes of each relationships are significant. Which explains that with major three dimensions of entrepreneurial orientation, it is having fantastic and full-size affect with financial performance of SMEs. Also, about moderating effects of Dynamic Business Environment, statistical outcomes bought from PLS-SEM defined that moderating results were

enormous and improves the overall financial performance of textile SMEs in Pakistan. Textile firms should focus on improving their entrepreneurial capabilities (risk-taking, proactiveness, innovativeness). Because these qualities/capabilities help textile SMEs to improve their performance. For future recommendations, this study suggests the researchers to find the effects of entrepreneurial orientation as intervening variable to check the performance. Researchers also try to find the effect of access of finance from micro financial institutions on the performance of SMEs on other sectors of Pakistan i.e. small spinning units and readymade garments.

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